

BEFORE THE PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY

OF

JOHN STUTZ

On behalf of:

The Rhode Island Division of Public Utilities and Carriers

May 21, 2003

TABLE OF CONTENTS

1. INTRODUCTION.....	1
2. SUMMARY	4
3. DETAILED TESTIMONY	5

Exhibit JS-1	Dr. Stutz's Testimony Before Regulatory Commissions
Exhibit JS-2	Standard Offer Rates Under Different Assumptions Concerning Fuel Index Related Costs

1. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John K. Stutz. My business address is the Tellus Institute (Tellus), 11
Arlington Street, Boston, Massachusetts 02116-3411.

Q. PLEASE DESCRIBE YOUR FIRM.

A. Tellus is a non-profit organization formed in 1976 to provide research and consulting
services. Initially the institute focused on energy. Over the years, however, the scope of
the work has grown. Today, in addition to energy, the institute's work includes
environmental policy, solid waste management, sustainable development and water
resource planning.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK HISTORY?

A. I received a B.S. from the State University of New York at Stonybrook and a Ph.D. from
Princeton University. Both degrees are in mathematics. I taught and did research at the
Massachusetts Institute of Technology, the State University of New York at Albany
where I received tenure, and Fordham University where I held the position of associate
professor of mathematics and was co-director of the program in mathematics and
economics. I left Fordham to help found Tellus in 1976. I am a vice president at Tellus,
where I have been employed since 1976.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I have extensive experience in the utility industry, particularly as an expert witness. Since
1977 I have appeared before the Federal Energy Regulatory Commission (FERC) as well
as Public Utility Commissions in 39 states, the District of Columbia, and three provinces

1 in Canada. In total, I have appeared in 172 proceedings as shown in Exhibit JS-1. Most of
2 my appearances have been in electric utility proceedings. However, I have occasionally
3 testified on gas and telecommunications matters. In addition to my utility-related
4 activities, since 1988 I have worked regularly for the United States Environmental
5 Protection Agency (EPA), the Organisation for Economic Cooperation and Development
6 (OECD), and various state and local agencies on issues related to solid waste
7 management and its impact on the environment.

8 **Q. DOES YOUR UTILITY-RELATED EXPERIENCE INCLUDE RATEMAKING?**

9 A. Yes. My first experience as an expert witness on ratemaking was in 1979. Since then, I
10 have appeared as a witness on ratemaking issues in 114 proceedings listed in Exhibit JS-
11 1. My testimony has addressed a variety of topics, including marginal costs, embedded
12 cost-of-service studies (COSS), service quality standards, and many aspects of rate
13 design.

14 **Q. PLEASE DESCRIBE YOUR UTILITY-RELATED PUBLICATIONS.**

15 A. My articles and comments on utility-related subjects have appeared in the *Public Utilities*
16 *Fortnightly*, *The Electricity Journal*, and elsewhere. My paper with Thomas Austin is
17 cited, in the second section of Bonbright's *Principles of Public Utility Rates*, as a source
18 of information on electric ratemaking in general and COSS in particular. I was the lead
19 author of "Aligning Rate Design Policies with Integrated Resource Planning," a white
20 paper commissioned by National Association of Regulatory Utility Commissioners
21 (NARUC). As NARUC's preface to this paper states, Tellus was selected to prepare this
22 paper largely because of my expertise in both IRP and electric utility rate design.

23 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN RHODE ISLAND?**

1 A. Yes. My first appearance as an expert witness in Rhode Island was in 1979. Since the
2 early 1980s, I have testified regularly on behalf of the Rhode Island Division of Public
3 Utilities and Carriers on electric ratemaking issues.

4

2. SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose is to respond to testimony by Ms. Jeanne Lloyd and Mr. Michael Hager on behalf of Narragansett Electric Company (“Narragansett” or “the Company”) included in the Company’s June 1, 2003 Retail Rate filing (the Filing). My testimony focuses on the Company proposal to increase the Standard Offer rate to 5.6 cents per kWh from its current level of 4.662 cents per kWh.

Q. WHAT STANDARD OFFER RATE DO YOU RECOMMEND?

A. I recommend a rate of 5.4 cents per kWh for the period June through December 2003. I also recommend that the Commission wait until the end of this year to set rates for 2004.

3. DETAILED TESTIMONY

Q. HOW WAS THE COMPANY'S PROPOSED STANDARD OFFER RATE DEVELOPED?

A. The proposed Standard Offer rate was developed based on an estimate of the cost of the electricity used to provide Standard Offer service. As shown in Mr. Hager's Exhibit MJH-1, that cost reflects two factors:

- A **Basic Charge** set for each year through 2009.
- **Fuel Index Related Payments**, determined monthly based on standard, published gas and oil price indices.

Using gas and oil price data reported in the *Wall Street Journal* on March 26, 27, and 28, 2003, Mr. Hager produced estimates of the Fuel Index Related Payments for the period through December 2004. Using Mr. Hager's estimates and the Company's forecast energy sales, Ms. Lloyd determined that a **Fuel Adder** of .9 cents per kWh would be required to cover the expected Fuel Index Related Payments through December 2003. The Company proposed to "balance the books for 2003" by setting the Standard Offer rate for June through December 2003 at the Basic Charge, 4.7 cents, plus the .9 cent Fuel Adder. This produced a total rate of 5.6 cents per kWh.

Q. DID THE COMPANY PROPOSE A STANDARD OFFER RATE FOR 2004?

A. No. However, Ms. Lloyd did point out that, based on Mr. Hager's estimates and forecast sales for 2004, the rate for 2004 would be 5.8 cents per kWh.

Q. HAS THE COMPANY PROVIDED AN UPDATE OF THE FUEL ADDER CALCULATION?

1 A. Yes, in response to Commission Data Request 1-4, the Company provided an update
2 based on data from the *Wall Street Journal* issues of April 25, 28, and 29. The result was
3 a reduction in the Fuel Adder, from .9 cents to .7 cents per kWh. This resulted in a
4 Standard Offer rate of 5.4 cents rather than 5.6 cents per kWh. Based on the updated
5 information, the anticipated rate for 2004 was also reduced, from 5.8 cents to 5.6 cents
6 per kWh.

7 **Q. DO YOU HAVE ANY COMMENTS CONCERNING THE PROPOSED**
8 **STANDARD OFFER RATE?**

9 A. Yes, I do. The challenge in setting the rate is to manage the impact of fuel prices, to
10 provide slow, stable growth. The current rate has provided stability for 17 months. Now
11 high fuel prices have necessitated an increase. When considering how to adjust the
12 Standard Offer rate to respond to these increases, it is useful to keep the following points
13 in mind:

- 14 • The proposed 20 percent increase would have a substantial impact on
15 customers, increasing bills by 8 to 13 percent as shown in Ms. Lloyd's
16 Exhibit JAL-5.
- 17 • Initially, the Standard Offer rate had been highly variable, rising from
18 3.8 cents to 6.1 cents between January 2000 and April 2001, and then
19 falling to its current level of 4.662 cents in January 2002.
- 20 • As shown in the Company's response to Commission Data Request 1-
21 6, forward market prices have been affected by the recent gas and oil
22 price spikes. Through the end of 2004 they are very high compared to
23 historic level. If actual prices fall as they did after the spikes in early

1 2001, the Fuel Adders included in the Company's original and updated
2 calculations could turn out to be higher than needed to cover costs.

3 Based on these three points, it would be reasonable to set the Standard Offer rate at 5.4
4 cents per kWh for the remainder of 2003, and wait until the end of this year to set rates
5 for 2004.

6 **Q. WHY IS THAT REASONABLE?**

7 A. Setting the Standard Offer rate at 5.4 cents per kWh will provide ratepayers a stable price
8 for the remainder of 2003, with only about 70 percent of the bill increases created by the
9 Company's proposal. And, based on the most recent oil and gas price data, this rate can
10 be expected to cover anticipated costs for the remainder of 2003. Looking further ahead,
11 Exhibit JS-2 shows how Standard Offer rates might be set for 2004 and 2005. As the
12 exhibit shows, beginning with the 5.4 cent rate it is possible to maintain reasonable rate
13 stability in the face of significant variations in Fuel Index Related Payments to Standard
14 Offer Suppliers in 2003, 2004 and 2005.

15 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

16 A. Yes, it does.

Dr. Stutz's Testimony Before Regulatory Commissions

STATE	APPEARANCES		STATE	APPEARANCES	
	<u>Rate-making</u>	<u>Planning</u>		<u>Rate-making</u>	<u>Planning</u>
Alabama	1		Minnesota	2	
Arizona	4		Mississippi	1	
Arkansas	1		Nevada	4	3
Canada	8		New Jersey	6	
Colorado	5	4	New York		5
Connecticut	3	3	New Mexico	5	
Delaware	1		New Hampshire	2	
District of Columbia	1		North Carolina	3	
FERC		3	Ohio	5	1
Florida	1	3	Oregon	1	
Georgia		1	Pennsylvania	2	4
Hawaii		1	Rhode Island	17	3
Illinois	1	3	South Carolina	1	
Iowa	1		Tennessee	1	
Kansas	1		Texas	7	1
Kentucky	1		Utah	2	
Louisiana	2		Vermont	3	1
Maine	11	5	Virginia	1	
Maryland	2		Washington		1
Massachusetts	1	4	West Virginia	3	
Michigan	2	12	Wisconsin	1	
				Total	Total
				<u>Rate-making</u>	<u>Planning</u>
				114	58

(from resume of J. Stutz as of 5 /03)

**STANDARD OFFER RATES UNDER DIFFERENT
ASSUMPTIONS CONCERNING FUEL INDEX RELATED COSTS⁽¹⁾**

	Usage (GWH)	Standard Offer Rates (¢ per kWh)		
		Base Case ⁽²⁾	High Case ⁽³⁾	Low Case ⁽⁴⁾
June-December				
2003	3,863	5.400	5.400	5.400
2004	6,637	5.600	5.800	5.400
2005	6,637 ⁽⁵⁾	5.600	5.864	5.336

- (1) "Fuel Index Related Costs" refers to payments to Standard Offer suppliers in excess of the annual Base Price, due to a fuel price index above the trigger point. "Required Fuel Adders" are charges designed to cover Fuel Index Related Costs for the year.
- (2) Base Case reflects the most recent Company estimates for 2003 and 2004. Required Fuel Adders are .7 cents for 2003 and .5 cents for 2004. For 2005 the Required Fuel Adder is assumed to be .1 cent per kWh.
- (3) High Case Required Fuel Adders are those assumed in the Company's evidence. For 2005, the High Case Required Fuel Adder is .2 cents per kWh, twice the level in the Base Case. Deficits fully recovered in 2005.
- (4) Low Case Required Fuel Adders for 2003 and 2004 are those from the Base Case less .2 cents per kWh. For 2005 the Required Fuel Adder is assumed to be zero. Excess payments from 2003 are refunded in 2005 producing a Fuel Adder of -.048 cents per kWh in 2005.
- (5) Usage in 2005 is kept the same as 2004, for simplicity.